

Schedule of Federal Audit Findings and Questioned Costs

**Ephrata School District No. 165
Grant County
September 1, 2008 through August 31, 2009**

1. The District did not properly administer its State Fiscal Stabilization Fund grant.

CFDA Number and Title:	84.394 ARRA State Fiscal Stabilization Funds
Federal Grantor Name:	U.S. Department of Education
Federal Award/Contract Number:	0995065
Pass-through Entity Name:	Office of Superintendent of Public Instruction
Pass-through Award/Contract Number:	0995065
Questioned Cost Amount:	\$0

Description of Condition

The District received \$986,480 in State Fiscal Stabilization Funds during the 2008-2009 school year under the American Recovery and Reinvestment Act. The District spent the grant money on teacher salaries.

In general, this grant money can be used to pay the salaries of teachers, staff and administrators incurred after April 1, 2009. Our audit found significant weaknesses in the District's internal controls designed to ensure the grant money was spent in the proper period.

The District Business Manager prepared a journal entry to allocate grant money to base salaries for teachers at two elementary schools. However, the grant funds were applied to a general expense account instead of being allocated to the specific teacher salary accounts as suggested by the pass-through granting agency.

We also found the grant money applied to the two schools was significantly greater than possible expenses in the period from April 1, 2009, to the end of the fiscal year. We found at least \$215,000 in grant money could have applied to teaching salaries before April 1, 2009, which is outside the allowed grant period.

Cause of Condition

The District was aware of grant period of availability requirements, but did not account for the money in compliance with grant requirements. District management stated because the State Fiscal Stabilization Funds program was a new source of funding it was not fully experienced in how to allocate grant money. The District approached the grant funds as a replacement for the reduction in other state funding.

Effect of Condition and Questioned Costs

Failure to comply with federal requirements may jeopardize the District's eligibility for future federal assistance. It also limits the ability of granting agencies to know that program objectives are being achieved.

We noted at least \$215,083 in grant funds were not spent during the period of availability. Because the District has demonstrated it has other eligible payroll costs it could have charged, we will not question these costs.

Recommendation

We recommend the District ensure that it has sufficient procedures to ensure that the District complies with federal grant requirements for period of availability.

District's Response

Ephrata School District acknowledges the facts stated in the Federal Single Audit report in regard to the State Fiscal Stabilization Fund Grant and agrees with the basis of the finding.

The awarding of SFSF funds to school districts was confusing and unusual in both timing and fiscal guidance. It was the District's understanding that SFSF funds were awarded to the school district in lieu of state funds. Based on that information, a journal entry was prepared to allocate teacher salaries from State BEA funds to SFSF funds. Because the grant was awarded very late in the school year, a journal entry was created and included only salaries from Columbia Ridge and Grant Elementary Schools. As a result of discussions with the Audit Team it was determined that 40 days of teachers' salaries needed to be claimed district-wide, not just at the two schools due to the 40 day window established for the grant. Calculating 40 days of salaries for all schools in the district resulted in identification of allowable salaries in the amount of \$1,020,869. Although the district did not claim any indirect costs, the district did expend sufficient allowable expenditures to cover the grant revenue received.

The district has implemented procedures to ensure full compliance with federal grant requirements for periods of availability. Grant award periods will be closely scrutinized to ensure expenditures are only made during the grant period and the federal grants manager will provide oversight assistance to the business office.

Auditor's Remarks

We appreciate the District's commitment to resolving the issues noted, and we will review the condition during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), states:

Appendix A

C. Basic Guidelines

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria . . .
 - d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 34, Code of Federal Regulations, Section 80.23 - Period of availability of funds.

- (a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Washington State Office of Superintendent of Public Instruction Bulletin 031-09 states in part:

Specifics of Expending SFSF in School Year 2008-09:

Expenditures are not allowable to SFSF until on or after the pre-award date established by ED; which is April 1, 2009.